

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Topock Elementary School District No. 12**

As of July 18, 2008

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STATE OF ARIZONA  
OFFICE OF THE  
**AUDITOR  
GENERAL**

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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
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November 10, 2008

Governing Board  
Topock Elementary School District No. 12  
P.O. Box 370  
Topock, AZ 86436-0370

Members of the Board:

In our October 2007 compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the years ended June 30, 2004 and 2005. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of July 18, 2008. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's audit reports for the years ended June 30, 2006 and 2007, and the USFR Compliance Questionnaire for the year ended June 30, 2007. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

# TABLE OF CONTENTS



Introduction	1
Finding 1: The District should strengthen controls over expenditures	2
Finding 2: The District should ensure the accuracy of its student attendance records	4
Finding 3: The District should improve the accuracy of its accounting records and financial reporting	6
Finding 4: The District's controls over cash receipts and bank accounts should be strengthened	8
Finding 5: The District should establish procedures to document and address conflicts of interest	10

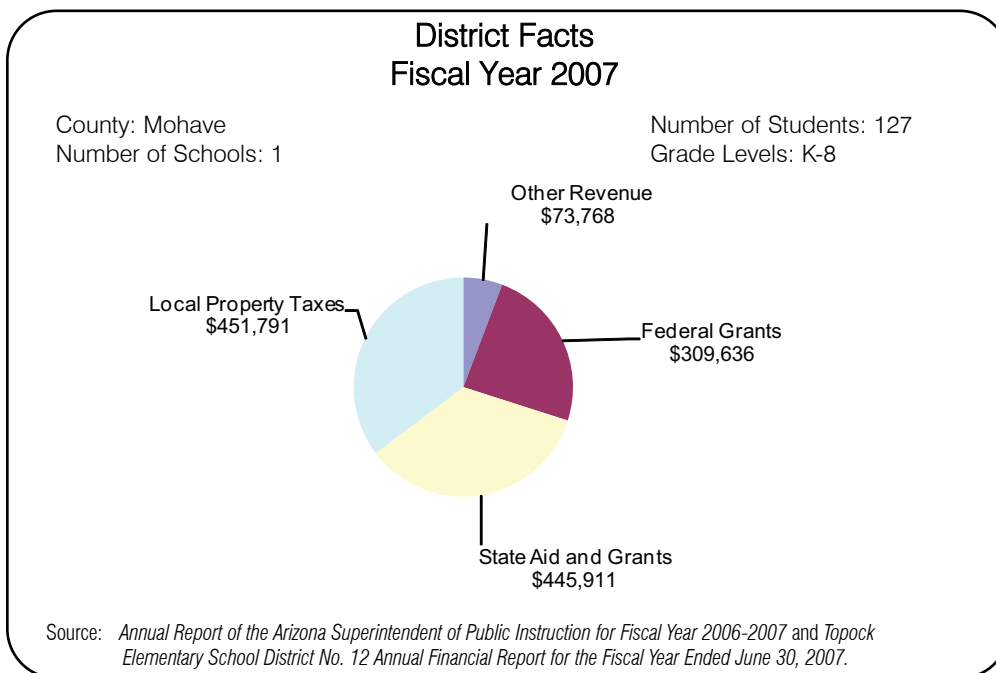


# INTRODUCTION

Topock Elementary School District No. 12 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.2 million it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# FINDING 1

## The District should strengthen controls over expenditures

The District spends tax dollars to reimburse employees for district-related expenses and purchase goods and services, so it is essential that the District follows procedures designed to help ensure that all expenditures are appropriate and adequately supported. However, the District lacked controls to ensure that district monies were

The District did not have written policies for credit card use, did not always obtain receipts to support credit card purchases, and purchased gifts and other inappropriate items with its credit cards.

spent appropriately. Specifically, the Governing Board did not approve written policies and procedures for the use of district credit cards, and the District did not always obtain receipts for credit card purchases. Additionally, the District did not always reconcile credit card purchases to supporting documentation or pay credit card balances in full when

due, resulting in finance charges and late fees. Also, the District allowed its credit card to be used to purchase gifts for individuals and meals for the superintendent when not eligible for meal reimbursements. Further, the District did not require employees to prepare travel claims to support meal and gasoline purchases charged on district credit cards when on travel status.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors, which helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not analyze the known requirements for an item or collection of items to determine whether it needed to follow such rules and guidelines.

## Recommendations

To strengthen controls over expenditures, the District should:

- Establish policies for the use of district credit cards, including appropriate transaction types and dollar limits.
- Maintain documentation to support all credit card transactions, including a clear indication of the employee who made the purchase and the specific school purpose for which the expenditure was made. Credit card receipts and other supporting documentation should be agreed to the applicable billing statement for propriety before payment is made to the credit card company.
- Ensure credit card payments are made in full and in a timely manner to avoid finance charges and late fees.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

- Refrain from using public monies to benefit private individuals unless there is a public purpose served by the expenditure. The District should not purchase gifts other than nominal value gifts made to recognize employee service that are approved by the Governing Board.
- Ensure district employees prepare travel claims for all travel expenditures. Meal reimbursements should be limited to meals purchased when employees are on travel status, which is defined as 50 or more miles from both the employee's place of business and residence.
- Require that travel claims include the travel purpose, destination, and the dates and times of travel. Review travel claims with any related credit card charges to help ensure that credit card purchases do not exceed allowable travel expenditures.
- Determine whether to request oral or written price quotations, or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above \$5,000.



# FINDING 2

## The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not always calculate partial-day attendance for elementary and junior high school students accurately and inappropriately reported half-day absences for kindergarten students. Additionally, student entry dates recorded in the computerized attendance system did not always agree to the dates on the entry forms, and sometimes entry dates were not recorded on the entry forms. Also, student withdrawal dates recorded in the computerized attendance system did not always agree to supporting documentation. In addition, the District did not document when entry and withdrawal information was recorded in the computerized attendance system. Further, the District's membership and absence amounts reported to ADE did not agree to the amounts in the District's computerized attendance system, and membership and absence information was not always submitted to ADE at least every 20 school days.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
  - Students that attend class less than one-half of a day should be counted as absent for 1 full day.
  - Students in attendance for at least one-half day, but less than three-quarters of a day, should be counted as absent for one-half day.
  - Students in attendance for at least three-quarters of a day should be counted in attendance for 1 full day.
- For kindergarten students when total instruction time scheduled for the year is at least 692 hours, students not in attendance at least one-half of the day should be counted as being absent for 1 full day. Half-day absences should not be reported for kindergarten students.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Prepare student entry and withdrawal forms, which include entry and withdrawal dates, and have a second employee verify that entry and withdrawal dates recorded in the computerized attendance system agree with supporting documentation and the entry and withdrawal forms. Retain all entry and withdrawal forms.
- Record entry and withdrawal information in the computerized attendance system within 5 days, and document the date the information was recorded on each entry and withdrawal form.
- Have a second employee verify that membership and absences reported to ADE agree with the District's attendance records.
- Submit membership and absence information to ADE electronically at least once every 20 school days through the last day of instruction.

# FINDING 3

## The District should improve the accuracy of its accounting records and financial reporting

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete and that transactions are properly recorded. However, the District did not fully accomplish these objectives. Specifically, the District did not maintain adequate supporting documentation for journal entries or require them to be approved. In addition, the District did not have effective controls over payroll processing since personnel files did not always include required supporting documentation and the federal or state taxes withheld for employees did not always agree with the designations on the applicable authorization forms. Also, employee contracts or notice of employment forms were not always signed by the employee and the District's Superintendent, and timecards for hourly employees were not always signed by the employees and the appropriate supervisors.

The District is also responsible for reporting and publishing budgeted and actual financial information in a timely manner and preparing minutes for its Governing Board meetings to allow the taxpayers and ADE to review the District's activities. However, the District did not do this since it did not submit its fiscal year 2009 proposed budget to ADE until after the budget was adopted, and did not publish, mail, or post a proposed budget and public hearing notice 10 days prior to the hearing for budget adoption. Additionally, the District prepared two proposed budgets, both of which were signed and for which budgeted expenditures in the Maintenance and Operation (M&O) Fund did not agree by nearly \$500,000. As a result, the adopted budget for the M&O Fund exceeded the budgeted expenditures in one copy of the proposed budget. Also, the District did not submit a revised fiscal year 2007 Annual Financial Report (AFR) to ADE to correct the overexpenditure previously reported in the Classroom Site Fund (CSF) 013—Menu Fund. Further, the District's fiscal year 2008 expenditures in CSF 011 for teacher base compensation exceeded the applicable budget limit by more than \$3,000. Finally, the District's Governing Board meeting minutes were not detailed enough to identify what was discussed at the meetings.

The fiscal year 2009 adopted budget for the M&O Fund exceeded the budgeted expenditures reported in the proposed budget by nearly \$500,000.

## Recommendations

To help ensure the accuracy of its accounting records and improve its financial reporting, the District should:

- Retain documentation for each journal entry, including explanations, attachments, or references to support the entry, and ensure each entry is reviewed, signed, and dated by an authorized employee.
- Retain all required personnel documents for each employee as applicable, including withholding authorization forms.
- Calculate employee tax withholdings using the current withholding authorization forms filed by employees.
- Ensure that employee contracts and notice of employment forms are signed by both the employee and the Superintendent, and that signed copies are maintained on file.
- Require each hourly employee to prepare timecards each pay period that are signed by the employee and the appropriate supervisor and retained to support hours worked.
- Publish, mail, or electronically post with ADE the proposed budget or budget summary and the notice of public hearing and Governing Board meeting by July 5 and at least 10 days prior to the meeting to consider the budget.
- Adopt a budget that does not exceed the published proposed expenditure budget for budget-controlled funds.
- Ensure that expenditures in any of the CSFs do not exceed the applicable funds' budget limits. Reclassify to the M&O Fund or another appropriate fund any expenditures that would have caused the CSFs to exceed the budget limits before closing the fiscal year's accounting records and preparing the AFR.
- File a revised AFR with ADE to remove any prior-year overexpenditures in the CSFs and make a corresponding journal entry in the accounting records.
- Prepare Governing Board meeting minutes that are detailed enough to provide an understanding of the items discussed, motions made, and decisions reached.

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

A.R.S. §38-431.01 provides the requirements for meeting minutes.

# FINDING 4

## The District's controls over cash receipts and bank accounts should be strengthened

The District receives cash from various sources and maintains bank accounts to deposit the related receipts. Additionally, the District holds student activities monies for safekeeping and is responsible for ensuring that proper procedures are followed for collecting and spending those monies, as well as district monies. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash, accurately record cash receipts and disbursements, and ensure that bank accounts are used only as authorized by statute. However, the District did not have adequate controls over

Student monies were at risk of loss or theft as the District did not maintain adequate records of student activities cash receipts and disbursements.

district and student activities cash receipts and bank accounts. Specifically, the District did not always record all deposits and checks in check registers, did not prepare written bank reconciliations, and did not separate cash-handling and recordkeeping responsibilities for its bank accounts. In addition, the District deposited miscellaneous receipts in the M&O Fund revolving bank account, rather than maintaining the account on an imprest basis. Further, the District did not always prepare and retain student activities cash receipt forms or cash collection reports to document cash collected and items sold. As a result, deposits may not have been made in a timely manner. Finally, the District did not always retain supporting documentation for student activities disbursements, including student club authorizations, and did not prepare a report of student activities cash receipts, disbursements, transfers, and cash balances to submit to the Governing Board monthly.

### Recommendations

To strengthen controls over cash receipts and bank accounts, the District should:

- Monitor account balances by recording all deposits and checks in the appropriate check register and calculating the cash balance.
- Separate the responsibilities of cash-handling and recordkeeping for each bank account so that no one employee is able to prepare and sign checks, maintain the check register, and prepare the reconciliations.
- Assign an employee independent of authorizing or signing checks to prepare a written reconciliation for each district bank account monthly. If a limited number

of employees make it impractical for an independent employee to prepare the reconciliations, a supervisor should review and approve the reconciliations.

- Maintain the M&O Fund revolving bank account on an imprest basis and deposit miscellaneous receipts into a clearing bank account or directly with the County Treasurer.
- Require that student clubs prepare cash collection forms to document and reconcile cash collections to receipts, tickets issued, or items sold. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, clubs should still prepare cash collection reports to document cash collected.
- Ensure that all student activities monies received are deposited intact daily, if significant, or at least weekly.
- Require each club to approve its disbursements from the Student Activities Fund and document approval in its meeting minutes. Also, the District should retain documentation to support the disbursements, including the club meeting minutes, requisitions, purchase orders, receiving reports, and vendor invoices.
- Ensure the student activities treasurer prepares a monthly report of cash receipts, disbursements, transfers, and cash balances for the Student Activities Fund, and submits the report to the Governing Board in a timely manner.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

# FINDING 5

## The District should establish procedures to document and address conflicts of interest

A.R.S. §38-503 requires that Governing Board members, officers, and employees make known any substantial interest they have in any contract, sale, purchase, or service, and refrain from voting or participating in such a contract, sale, or purchase. The interest must be disclosed in writing and retained in a file exclusively for that purpose with the District. This file is public record. However, the District did not have procedures to inform employees of these requirements and ensure that existing conflicts of interest among its employees and Governing Board members were identified.

To help ensure that the District identifies and documents any conflicts of interest for its employees and Governing Board members, the District should:

- Establish a procedure for notifying employees and Governing Board members of the requirement to disclose conflicts of interest.
- Require employees and Governing Board members who have a substantial interest in any contract, sale, purchase, service, or decision of the District to file a conflict-of-interest statement and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.
- Require employees to file conflict-of-interest statements when they supervise relatives, and refrain from participating in decisions or contracts related to relatives, such as approving pay increases.